Moody's International
Public Finance

Credit Analysis

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Summary Rating Rationale

The A1 issuer rating, with stable outlook, for the City of Prague reflects a Baseline Credit Assessment (BCA) of 6 (on a scale of 1 to 21, where 1 represents the lowest credit risk) and our assessment of the very high likelihood that the national government of the Czech Republic (A1, positive outlook) would act to prevent a default by the city.

Prague's BCA of 6 reflects its consistently strong operating performance that represents the main source of city's investment. Prague holds a comfortable level of cash reserves that has been further strengthened by overall financial surpluses and covers more than half of its direct debt. The assessment also takes into account the structure and maturity of the city's debt, as well the indirect liabilities of its companies.

Rating Outlook

The outlook for the City of Prague's long-term issuer rating is stable, reflecting the city's intention to primarily fund its relevant investment needs from own budget rather than debt. The outlook also takes into account the maturing municipal bonds with the refinancing risk on current capital market.

This Credit Analysis provides and in-depth discussion of credit rating(s) for City of Prague and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website [Click here].

Moody's Investors Service

Key Rating Considerations

Financial Position and Performance

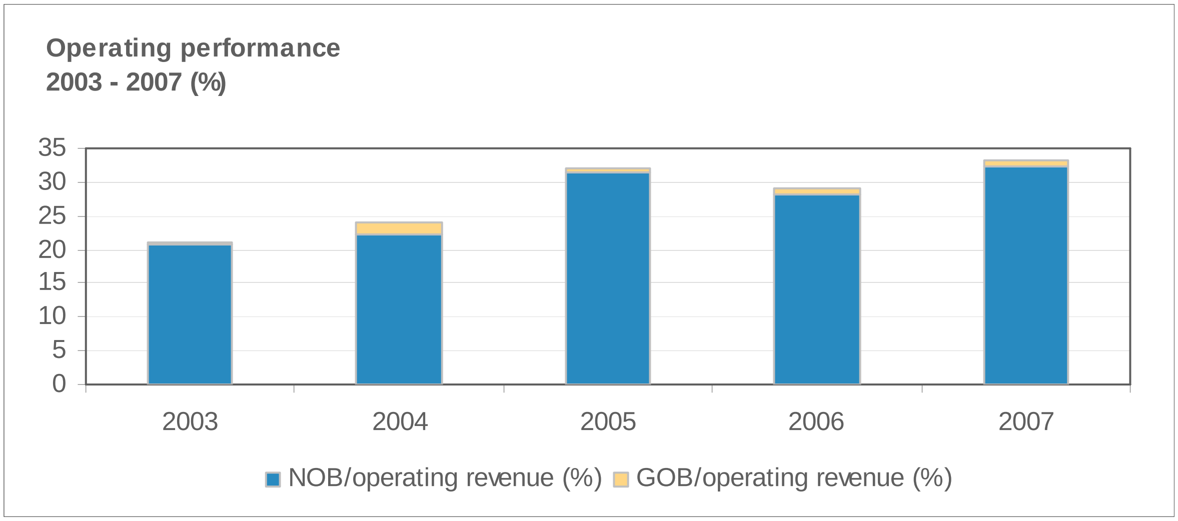
Moody's analysis of the City of Prague focuses on the financial results before the consolidation with the city districts. The districts represented 1% of total debt in 2007 and the city is not formally responsible for their financial performances.

The annual statistics presented in the appendix show the transfers to city districts on the expenditure side in spite of the city's financial statements, where these transfers are a negative part of the revenue.

Consistently high operating margins driven by national economic growth support the excellent self-funding capacity

Prague showed a strong operating performance between 2003 and 2007. In 2007, the gross operating balance soared to 33% of operating revenue (from 21% in 2003), high above the national average of 22%. Lower level of operating margins in 2003 and 2004 still incorporated the extra spending that Prague dedicated to municipal asset damaged by 2002' floods. The main trigger for improving results has been the national economic growth, which averaged to 6.5% over the past three years. It is likely that the city will maintain good operating margin in next years in spite of the expected slow down of national economy as the city management aims to reduce its operating expenditure - mainly its transfers to own organisations and grants - to find additional sources for investment.

Chart 1. City of Prague



Overall financial performance has returned to positive since 2005 by virtue of high operating balances that slightly exceeded the capital budget. Prague's own funding capacity – defined as the combination of GOB and capital revenue - is high, covering on average 90% of investment over the past five years. Between 2003 and 2007, the majority of the city's capital spending was covered by operating balances (73%), followed by new borrowing (20%). The investment transfers were negligible and funded only 7% of investment. Thanks to high operating balances, Prague can afford to hold its asset rather than sell it. This is likely to persist in the future.

Extremely low revenue flexibility

Roughly 90% of Prague operating revenues is made by intergovernmental transfers. In the intergovernmental transfers, Moody's includes proceeds from shared taxes and state transfers. The rate and base of shared taxes is set at the national level only with no leeway for Czech cities to make adjustments. The basket of shared taxes comprises personal income tax, corporate income tax and VAT, all collected by the central government. These proceeds are distributed between the municipalities on a per capita basis and adjusted by a coefficient that takes various criteria into account, including the size of each entity. The coefficient for the City of Prague is the highest among Czech cities given its dual status as a municipality and as a region.

The majority of state transfers are dedicated to education, mainly provided by city districts. The transfers also fund part of the responsibilities under state administration or social sphere. On average, state transfers comprised 19% of operating revenue over the past five years[1].

Some flexibility over operating revenue may be found in local fees or non-tax revenue. But in practice, Prague has already imposed the highest fees allowed by the central government's limitation. In addition, revenue from rent is still constrained by the persisting state regulation. Prague would have great potential to generate more revenue from local fees if the limits were raised or abolished. This would allow the city to benefit more from tourists, where the proceeds from accommodation are very low compared with other European metropolises. Some fees should be modified as they do not correspond to the real cost related to the service or prices (e.g. waste management fee and real estate tax). Czech municipalities negotiate these issues with the central government and progress appears very likely to be made in the near future.

Operating expenditure partly constrained by national standards

Personnel and transfers to allowance organisations are the less flexible city expenditure as the city is bound by national scales or standards. This applies to transfers to districts that also comprise personnel and cost related to allowance organisations. In average, it made up about 38% of operating expenditure in the past five years. The main part of transfers earmarked for districts go to education, to primary and secondary schools. The state funds cover 100% of the teachers' salaries and school books – or about two-thirds of the costs relating to education. However, maintenance and other operating costs are not compensated. Despite the minimum level of certain costs set by the central government, state subsidies covered only 68.5% of this expenditure, with the remaining part funded by city's own resources.

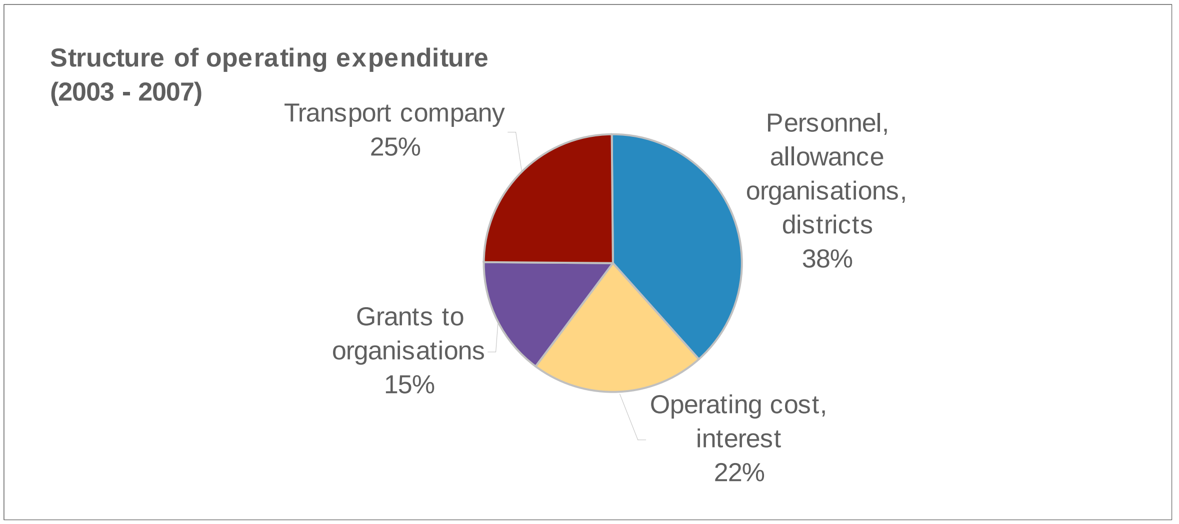
Growing input prices together with higher expenditure dedicated to maintenance caused the increase in costs related to services, supplies and administration. Prague managed to regulate it so it grew on average by 4.3% in the past five years. Nevertheless, it still ranks among major operating expenditure (18.4% in 2003-2007). Interest payments comprised 3.1% of operating expenses in the past five years, having grown by 10.3% on average. This incorporates the increase in base rates as well as the swap operations related to municipal bonds.

Prague also supports various foundations and not-for-profit organisations providing the services in social sphere, culture or religion. The amount of grants depends on the yearly negotiations with the city. Over 2003-2007, Prague dedicated about 15% of its operating budget to these organisations.

The most demanding city organisation is the 100% owned transport company (Dopravni podnik Hlavniho mesta Prahy, a. s.). Prague earmarked about 25% of its operating budget to support the service provided by the company. Nevertheless, the city managed to keep these operating transfers under control. It even reduced the subsidy to this company in 2007 by 9% to CZK7657 million[2] by encouraging the new management of the transport company to start cost cutting. As a result, the company reduced personnel and started outsourcing several services. The city is aiming to cut its subsidy to the company so that it would cover 55% of operating cost by 2015 from current level of 70%. To boost the company's revenue, Prague also approved an increase in tariffs[3] since January 2008. Even if it brings additional revenue to the company, it is likely that the growth of the input prices will consume it. Moreover, further increase in tariffs is not likely in the near future.

1 The sudden decrease in intergovernmental transfers in 2004 relates to a one-off change in the way the state provided subsidies to the districts. Rather than using the city as a pass-through, districts received these transfers to their budget.
2 The highest operating subsidy to transport company, CZK9.7 billion, the city provided in 2003 to cover aftermaths of 2002 floods.
3 Prague rather subsidised the transport company to attract the public transport to the inhabitants and discourage the use of cars in the city. Before, Prague changed the tariffs in 2005 and 1997.

Chart 2. City of Prague



Going forward, the city aims to reduce its operating expenditure to build sufficient capacity for investment. Besides transport, Prague has also focused on personnel cost and proper spending of budgeted investment. The internal restriction allows transferring the investment only in an extraordinary event. As a result, only CZK1 billion[4] of budgeted but not-spent investment has been transferred to the 2008 budget. This restriction has a positive implication on the city's budget in terms of better investment planning and spending for reasonable projects.

Despite consistently large investment, tremendous investment needs persist

Prague consistently dedicates more than 30% of its budget to capital expenditure. The proportion corresponds to the average for Czech municipalities, but contrary to them Prague funds its investment predominantly from own resources or new borrowing. Investment transfers provided by the state are low compared with other Czech cities.

Since 2002, the majority of investment has gone to municipal assets affected by the 2002 floods and extension of the underground network. In 2007, capital expenditure soared to CZK17 billion, the highest level so far, but without the need for debt financing. Moreover, the operating balance and available capital revenue enabled the city to fund all investment without tapping its cash reserves.

Prague annually spends CZK4 billion–CZK6 billion on maintenance of existing facilities. The investment programme itself mainly consists of strategic projects that are required for the sustainability and further development of the city. Prague has been already working on the construction of the inner ring-road and the expansion of the underground. To comply with the current EU standards, Prague has to modernise its wastewater treatment plant (WWTP). The reconstruction has already started but the detailed financing is still unclear. The city asks for the EU subsidies and the contribution of the WWTP provider beside his prepaid rent of the facility.

Prague intends to keep its current level of direct debt, which is why alternative sources of funding are being considered, such as a PPP financing for a new underground line. It should be noted that PPP funding is likely to be incorporated into debt burden according to Moody's debt definition.

[4] In previous years, Prague used to transfer about CZK4 billion of investment to next year's budget.

Debt Profile

The net direct and indirect debt[5] of Prague comprised 62% of operating revenue in 2007 (CZK32 billion). The debt ratio has been constantly decreasing (from 77% in 2003) thanks to the aversion to new debt. Half of the debt falls on bonds issued between 1999 and 2003 in EUR or CZK. Bank loans represent the majority of the remaining debt, especially those contracted with EIB for the public transport system and the extensive repairs in the aftermath of the 2002 floods. The debt of the city districts is quite small, amounting to CZK0.3 billion in 2007 and evenly divided between the state borrowings and bank loans.

Prague has hedged its bonds against any foreign currency exposure and EIB loans against the interest rate risk. In general, the currency risk has been eliminated while about 50% of the city's debt has been exposed to interest rate risk.

Despite a sizeable debt stock, the repayment schedule is quite manageable thanks to long-term maturities of the debt and the funds available in the sinking fund. All bonds are of ten-year issues, maturing between 2009 and 2013. Regarding the EIB loans, Prague benefits from a 5 to 7 year grace period, with a 15 to 30 year maturity depending on the investments. Prague established a sinking fund that was regularly replenished between 2002 and 2005 and in 2007 totalling CZK5.6 billion. The fund should finance the bond bullet payments in 2009 and 2011. However, Prague would rather use this cash reserve to repay the ING bond early, two years before its contracted maturity, to ease the debt repayment schedule between 2009 and 2013, when all bonds are due. Although the city assembly has already decided about this early repayment, the action must be also approved by financial market authorities and other parties involved (apart from the city and the relevant bank, the early repayment must be approved by Czech national bank, Prague stock exchange and bond holders).

Prague's debt service averaged 3% of total revenue between 2003 and 2007. The peaks are expected to occur in 2009, 2011 and 2013 with regard to bonds' repayments, but will not exceed 12% of total revenue. The remaining part of the sinking fund may be used for partial redemption of bonds in 2009 or for supporting strategic investments. Prague is considering several options of funding the bonds due, with refinancing the most likely to be chosen.

In 2005, Prague provided a financial guarantee to a bank loan for the Congress Centre, a company 100% owned by the city. At the end of 2007, the outstanding amount of debt equalled CZK0.6 billion. Apart from this, the company issued the bonds that mature in 2014 and a bank line is also available. The city also provided an interest-free borrowing (CZK0.032 billion) that has not been settled yet. The Congress Centre does not rely on city's subsidies.

Good cash cushion

Prague recorded a positive financial result of CZK0.8 billion (1.7% of total revenue) in 2007, a similar level of earnings as reached in 2006. It did not approach the extraordinary surplus of CZK1.3 billion (3% of total revenue) reached in 2005 though. Nevertheless, it boosted its good cash position which amounted to 35% of total revenue end of 2007. It has consistently been supported by the overall financial surpluses, with a few exceptional deficits.

At the end of 2007, Prague held an equivalent of 35% of total revenue on its bank accounts. Cash management is rather conservative having internal limits on the maturity up to one year. Moreover, there are restrictions on the bank ratings as well the financial instruments that must assure 100% recovery of investment with above-average yields. Comfortable level of cash together with regular proceeds from taxes and schedule of transfers help the city to better manage its financing. Prague therefore has not used any bank lines and does not intend to do it in future.

Cash reserves covered 55% of the city's direct debt at year-end 2007. It comprises a sinking fund, which will probably be used for early repayment of a bond (CZK 3.75 billion provided by ING) in 2008 with the remaining

[5] Net direct and indirect debt is calculated as a city's debt with guarantees of not self-supporting entities, the debt of districts and not self-supporting entities. It is reduced by the amount held on the sinking fund.

part earmarked either for bond repayment the following year or strategic investments. It is not likely that the sinking fund will be replenished on the grounds of the city's need to fund its strategic investments.

Transport company as an indirect obligation for the city

The transport company's debt represents the indirect debt for Prague as the company is heavily subsidised from the city's budget. A bank loan of CZK4 billion with a 10-year maturity was contracted for the funding of the rolling stock of the underground. To strengthen its cash position, the company has a bank line available; which has been doubled to CZK0.5 billion since 2008.

In 2007, the company recorded a loss of CZK1.8 billion that was caused by the increase in depreciation cost, provisions for asset reconstruction and the sign-off investment related to unnecessary anti-floods equipment. The cost savings introduced by the company has encouraged the city to reduce the operating subsidy for 2008 to CZK7.22 billion from CZK7.657 in 2007. Although the increase in tariffs introduced in January 2008 will bring an additional CZK0.7 billion, the company's financial results would likely ended with a deficit again if the city's subsidy is not increased.

Governance and Management Factors

For the past five years (2003-2007), the city has stayed well within its budget targets and demonstrated a prudent approach to its revenue and expenditure budgeting by fully taking into account its responsibilities and partially its revenue sources, excluding central government transfers. The list of investments for a particular year stems from detailed planning with the emphasis on timing and is now more realistic.

Prague provides long-term budget forecasts until 2013. It shows the city's intention to cover all strategic and maintenance investment from own sources rather than new borrowing. It does not rely on capital revenue as the city tends to keep its property and has very limited chance to obtain capital transfers according to EU criteria. The city carries on sophisticated and cautious debt management.

Reporting required by the Ministry of Finance is comprehensive and timely: a financial statement on a monthly basis; quarterly balance sheet (of itself as well as of its contributory organisations) and profit and loss account; yearly annual report (including its contributory organisations), information on new debts and borrowings with annual report available within six months of the next year. The independent auditor audits the annual financial accounts of the city and districts.

Economic Fundamentals

With a contribution to national GDP of 24% and a GDP per capita accounting for 210% of the national average in 2006 (latest available data), Prague outperforms its peers and is well positioned in respect to other European cities. Prague also represents the largest labour market in the country, accounting for 29% of the national workforce, and attracts more than 53% of FDI directed to the Czech Republic (in 2006). Though Prague is the economic centre of the country and enjoys a robust economy, Moody's does not focus closely on the local economic environment given that, under the Czech RLGs' institutional and financial framework, local economic fundamentals do not directly influence their budgets, which instead rely almost entirely on the growth of the national economy.

Demographic trends, however, have a direct impact on the amount of revenue coming into the city's budget, therefore are valid for analysis. After years of population decline due both to negative natural balances and net migration, in recent years the city has seen a reversal in demographic trends owing mainly to positive migration inflows.

Operating Environment

The operating environment for Czech RLGs reflects that of OECD emerging market economies, with relatively high GDP per capita within the emerging markets universe, modest GDP volatility and relatively high ranking on the World Bank government effectiveness index. The combination of these characteristics suggests a low level of systemic risk, as reflected in the A1 rating assigned to the debt issued by the national government.

Institutional Framework

Stable and rather predictable environment characterised by low budget flexibility

The framework for Czech municipalities, which started taking shape in the mid-1990s, has been relatively predictable. The fundamentals of the system related to the funding of municipal responsibilities and their budget structure appear settled and are unlikely to be significantly changed. Nevertheless, recent developments indicate that some corrections to the system of public finance can be expected. From 2008, cities' revenues are influenced by the coalition government's reform programme, which lowers the rate of total taxation in the Czech Republic. With regard to shared taxes, the programme established: (i) a 15% flat rate personal income tax based on gross labour income, which equates to a real tax rate of slightly over 23%; (ii) a reduction in corporate taxes to 19% by 2010 from 24% in 2007; and (iii) a rise in the reduced-rate VAT on some basic goods to 9% from 5%. For 2008, the impact of the tax reform on local governments' budgets is expected to be offset by the higher proceeds from VAT and growth of the national economy (expected real GDP growth above 4% over the medium term). Moody's expects that revenue decreases estimated beyond 2009 will be compensated by further changes in the redistribution mechanism although the scope and pace of these changes is still unknown and is subject to negotiations.

The central government has separately increased the allocation of shared taxes to the municipalities from 20.6% to 21.4%. This will bring an additional CZK4.6 billion to local governments from 1 January 2008. The formula for the redistribution of shared taxes between municipalities has also been adjusted; it now takes into account the area of the city and reduces the differences between the categories of city size. These changes significantly push up the revenues of small cities (up to 300 inhabitants), with a negligible impact on large cities. These arrangements offset any negative impacts from the impact of the tax reform for the cities and redistribute shared taxes more evenly.

City's range of responsibilities and composition of revenue affected by its complex structure and generate contingent liabilities

The city is divided into 57 districts, the boundaries of which can be changed only by the city's assembly. Given the districts strong representation in the assembly, a reduction in the number of districts through mergers is unlikely. Although districts are self-governing bodies recognised by the national law with their own legislature, council and mayors, financially they are heavily dependent on central government transfers. A high proportion of these transfers can be explained by the range of their responsibilities outlined in the city's status, especially education under the age of 15 and social welfare benefits, which in the Czech budget system are funded by the central government. The rest is non-tax revenue generated by the property entrusted to them by the city and taxes either fully assigned to them (property tax) or shared with the city.

Their financial performance is strictly controlled by the city. In theory, districts do not need approval from the city to borrow (without the city's guarantees), but in practice smaller ones are required collateral for the city's owned property, whereas the biggest (12-13 of the total) borrow freely. Though Moody's presents the city's accounts without the districts, owing to the close links between the city and its districts, the obligations of the districts are disclosed in the city's overall debt as indirect obligations of the city.

Rating History

Prague, City of

Date	Rating	
15 DEC 2006	A1	RATING RAISED
3 JUN 2004	A2	RATING ASSIGNED

Prague, City of

Annual Statistics

Prague, City of

CZK millions		2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
FINANCIAL INDICATORS													
Total Revenues [1]		**42,822**		**43,860**		**48,950**		**50,572**		**53,087**		**54,598**	
Total Expenditure [2]		**47,649**		**49,100**		**47,598**		**49,769**		**52,255**		**56,603**	
OPERATING REVENUES													
Tax revenues		**29,998**	***71.7***	**32,137**	**75.0**	**36,686**	***76.4***	**37,230**	**76.0**	**41,111**	***79.4***	**42,385**	***80.4***
Assigned taxes		27,647	*66.1*	30,105	70.3	34,435	*71.7*	35,131	71.7	38,329	*74.0*	39,873	*75.7*
o/w	Personal Income (PIT)	9,428	*22.6*	10,431	24.3	11,257	*23.5*	10,612	21.7	11,648	*22.5*	11,098	*21.1*
	Corporate Income (CIT)	7,268	*17.4*	7,953	18.6	9,018	*18.8*	9,379	19.1	10,609	*20.5*	10,820	*20.5*
	VAT	10,951	*26.2*	11,720	27.4	14,161	*29.5*	15,140	30.9	16,071	*31.0*	17,956	*34.1*
Own taxes (local taxes & collections)													
o/w	Real Estate (Property Tax)	21	*0.0*	1	0.0	2	*0.0*	6	0.0	4	*0.0*	0	*0.0*
	Local Fees (taxes)	154	*0.4*	174	0.4	185	*0.4*	187	0.4	202	*0.4*	186	*0.4*
Tax reimburstments on proceeds		1,577	*3.8*	1,151	2.7	1,185	*2.5*	984	2.0	1,580	*3.1*	1,466	*2.8*
Other taxes and collections		599	*1.4*	706	1.6	877	*1.8*	922	1.9	996	*1.9*	860	*1.6*
Intergovernmental revenues		**9,748**	***23.3***	**8,342**	**19.5**	**8,310**	***17.3***	**8,820**	**18.0**	**8,674**	***16.7***	**8,478**	***16.1***
	Transfers & grants	9,717	*23.2*	8,252	19.3	8,197	*17.1*	8,680	17.7	8,519	*16.4*	8,478	*16.1*
	Subsidy from Region	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	0	*0.0*
	Subsidies from abroad	0	*0.0*	0	0.0	2	*0.0*	0	0.0	0	*0.0*	0	*0.0*
	Other subsidies	31	*0.1*	91	0.2	111	*0.2*	139	0.3	154	*0.3*	0	*0.0*
Non-tax revenue		**2,064**	***4.9***	**2,366**	**5.5**	**3,002**	***6.3***	**2,952**	**6.0**	**2,017**	***3.9***	**1,842**	***3.5***
	Charges on services	181	*0.4*	210	0.5	216	*0.5*	228	0.5	185	*0.4*	78	*0.1*
	Property rents and leases	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	0	*0.0*
	Revenues from city-owned entities	539	*1.3*	462	1.1	942	*2.0*	806	1.6	600	*1.2*	882	*1.7*
	Interest income & realization of financial assets	1,166	*2.8*	1,508	3.5	1,547	*3.2*	1,601	3.3	657	*1.3*	260	*0.5*
	Other	178	*0.4*	186	0.4	296	*0.6*	317	0.6	575	*1.1*	622	*1.2*
Total operating revenues		**41,810**	***100.0***	**42,845**	**100.0**	**47,998**	***100.0***	**49,002**	**100.0**	**51,801**	***100.0***	**52,705**	***100.0***

Prague, City of

Prague, City of

CZK millions	2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
OPERATING EXPENDITURE												
Wages, salaries & overheads	1,330	*4.0*	1,424	4.4	1,417	*4.3*	1,507	4.3	1,714	*5.0*	1,866	*5.3*
Services, supplies & consumables	5,473	*16.6*	6,167	18.9	6,134	*18.8*	6,662	19.2	6,469	*18.7*	6,739	*19.1*
Subsidies and Current transfers	25,309	*76.7*	23,923	73.4	24,012	*73.5*	25,496	73.3	25,188	*72.8*	24,286	*68.7*
Interest expenses	802	*2.4*	1,049	3.2	1,087	*3.3*	1,078	3.1	1,187	*3.4*	1,355	*3.8*
Other operating costs	98	*0.3*	27	0.1	11	*0.0*	30	0.1	33	*0.1*	1,082	*3.1*
Total operating expenditure	**33,012**	***100.0***	**32,590**	**100.0**	**32,661**	***100.0***	**34,773**	**100.0**	**34,592**	***100.0***	**35,327**	***100.0***
Primary operating balance	9,601		11,304		16,424		15,307		18,397		18,732	
Gross operating balance	**8,799**		**10,254**		**15,337**		**14,229**		**17,209**		**17,377**	
Net operating balance	8,669		9,468		15,143		13,743		16,795		17,062	

Prague, City of

Prague, City of

CZK millions	2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
CAPITAL REVENUES												
Property sales	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	0	*0.0*
Sales of shares & intangible assets	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	0	*0.0*
Other capital rvenues	0	*0.0*	5	0.5	4	*0.4*	21	1.3	10	*0.8*	7	*0.4*
Capital transfers	1,011	*100.0*	1,010	99.4	947	*99.4*	1,546	98.4	1,261	*98.1*	1,865	*98.5*
Loans returned to the City	0	*0.0*	1	0.1	1	*0.2*	3	0.2	14	*1.1*	20	*1.1*
Total capital revenues	**1,011**	***100.0***	**1,015**	**100.0**	**952**	***100.0***	**1,571**	**100.0**	**1,286**	***100.0***	**1,893**	***100.0***
CAPITAL EXPENDITURE												
Investments	6,869	*46.9*	9,066	54.9	8,714	*58.3*	7,640	50.9	8,653	*49.0*	14,608	*68.7*
Purchase of intangible assets	0	*0.0*	38	0.2	12	*0.1*	0	0.0	0	*0.0*	0	*0.0*
Capital transfers	7,768	*53.1*	7,406	44.9	6,209	*41.6*	7,348	49.0	8,974	*50.8*	6,296	*29.6*
Other	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	348	*1.6*
Loans provided by the City	0	*0.0*	0	0.0	2	*0.0*	9	0.1	36	*0.2*	23	*0.1*
Total capital expenditure	**14,638**	***100.0***	**16,510**	**100.0**	**14,938**	***100.0***	**14,996**	**100.0**	**17,664**	***100.0***	**21,275**	***100.0***
CAPITAL BALANCE	**-13,626**		**-15,495**		**-13,985**		**-13,426**		**-16,378**		**-19,382**	
FINANCING DEFICIT/SURPLUS	**-4,828**		**-5,240**		**1,352**		**803**		**831**		**-2,005**	

[1] Excludes new borrowings
[2] Excludes debt repayment

Prague, City of

Prague, City of

CZK millions		2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
DEBT INDICATORS													
DEBT MOVEMENTS													
Gross new borrowings		12,711		1,487		1,628		96		0		0	
Debt repayment		130		786		194		485		415		316	
Change in debt [3]		12,581		701		1,434		-390		-415		-316	
TOTAL BUDGET BALANCE		**7,754**		**-4,539**		**2,786**		**414**		**417**		**-2,320**	
CASH BALANCE at year-end		**17,112**		**13,242**		**15,732**		**16,940**		**17,357**		**15,037**	
DIRECT DEBT													
of which	Direct debt (CZK)	32,147	*88.8*	32,849	86.6	34,283	*87.6*	33,893	88.3	33,508	*89.2*	33,218	*89.0*
	Direct debt (FX - EUR)	15	*1.3*	15	1.3	15	*1.2*	14	1.2	13	*1.1*	12	*1.0*
	Direct debt (FX - USD)	0	*0.0*	0	0.0	0	*0.0*	0	0.0	0	*0.0*	0	*0.0*
Total direct debt		**32,634**	***90.2***	**33,306**	**87.8**	**34,718**	***88.7***	**34,276**	**89.3**	**33,851**	***90.1***	**33,501**	***89.7***
Debt of not self-supporting entities		**3,552**	***9.8***	**4,641**	**12.2**	**4,423**	***11.3***	**4,119**	**10.7**	**3,727**	***9.9***	**3,828**	***10.3***
DIRECT AND INDIRECT DEBT		**36,185**	***100.0***	**37,946**	**100.0**	**39,141**	***100.0***	**38,395**	**100.0**	**37,578**	***100.0***	**37,329**	***100.0***
- Sinking fund		**-4,135**		**-5,135**		**-5,635**		**-5,635**		**-5,635**		**-5,635**	
NET DIRECT AND INDIRECT DEBT		**32,050**		**32,811**		**33,506**		**32,760**		**31,943**		**31,694**	

Prague, City of

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CZK millions	2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
KEY RATIOS AND INDICATORS												
TOTAL ACCOUNTS												
Total revenue growth rate [1] (%)	10.80		2.42		11.60		3.31		4.97		34.39	
Total expense growth rate [2] (%)	15.94		3.04		-3.06		4.56		5.00		17.89	
Total revenues per capita CZK thousands	36.74		37.47		41.43		42.56		43.80		45.95	
Total expenses per capita CZK thousands	40.88		41.95		40.28		41.89		43.11		47.64	
Total tax revenues/ total revenues (%)	70.05		73.27		74.95		73.62		77.44		77.63	
Total intergovernmental revenues/total revenues (%)	25.13		21.32		18.91		20.50		18.71		18.94	
Total transfers/total expenses (%)	69.42		63.81		63.49		65.99		65.38		54.03	
Financing deficit/surplus [3] as % of total revenues (%)	-11.27		-11.95		2.76		1.59		1.57		-3.67	
OPERATING ACCOUNTS												
Operating revenues/total revenues (%)	97.64		97.69		98.05		96.89		97.58		96.53	
Operating expenses/total expenses (%)	69.28		66.38		68.62		69.87		66.20		62.41	
Tax revenues/operating revenues (%)	71.75		75.01		76.43		75.98		79.36		80.42	
Intergovernmental revenues (operations related) / operating revenues (%)	89.44		89.73		89.06		89.69		90.74		16.09	
Service charges/operating revenues (%)	0.43		0.49		0.45		0.47		0.36		0.15	
Transfers (op. related)/operating expenses (%)	76.67		73.41		73.52		73.32		72.82		68.75	
Primary operating balance/operating revenues (%)	22.96		26.38		34.22		31.24		35.51		35.54	
Gross operating balance/operating revenues (%)	21.04		23.93		31.95		29.04		33.22		32.97	
Net operating balance/operating revenues (%)	20.73		22.10		31.55		28.05		32.42		32.37	
Financing (deficit/surplus) [3]/operating revenues (%)	-11.55		-12.23		2.82		1.64		1.61		-3.80	
Gross financing (deficit/surplus)/operating revenues (%)	-11.86		-14.07		2.41		0.65		0.80		-4.40	
CAPITAL ACCOUNTS												
Capital revenues/total revenues (%)	2.36		2.31		1.95		3.11		2.42		3.47	
Capital expenses/total expenses (%)	30.72		33.62		31.38		30.13		33.80		37.59	
Intergovernmental revenues (capital related)/capital revenues (%)	99.98		99.45		99.43		98.43		98.11		98.54	
Net operating balance/capital expenses (%)	59.22		57.35		101.37		91.64		95.08		80.20	

Prague, City of

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CZK millions	2003 realised	%	2004 realised	%	2005 realised	%	2006 realised	%	2007 realised	%	2008 Adj.June	%
DEBT												
Total debt growth rate (%)	65.26		2.37		2.12		-2.23		-2.50		0.00	
Total debt per capita CZK thousands	27.50		28.03		28.36		27.57		26.35		26.68	
Total debt / total revenues (%)	74.85		74.81		68.45		64.78		60.17		58.05	
Total debt in yrs of gross operating balance (yrs)	3.64		3.20		2.18		2.30		1.86		1.82	
Direct debt growth rate (%)	58.65		2.06		4.24		-1.27		-1.24		0.00	
Direct debt per capita CZK thousands	28.00		28.45		29.38		28.85		27.93		28.20	
Direct debt/total revenues (%)	76.21		75.94		70.93		67.78		63.76		61.36	
Direct debt in yrs of gross operating balance (yrs)	3.71		3.25		2.26		2.41		1.97		1.93	
Short-term debt/debt (%)	2.41		0.58		1.40		1.21		0.93		0.00	
Interest expense growth rate (%)	-9.55		30.82		3.59		-0.85		10.16		0.00	
Interest expenses/total revenues (%)	1.87		2.39		2.22		2.13		2.24		2.48	
Debt service growth rate (%)	-6.49		96.92		-30.20		22.00		2.47		0.00	
Debt service/total revenues (%)	2.18		4.19		2.62		3.09		3.02		3.06	
Gross new borrowings/debt (%)	38.95		4.47		4.69		0.28		0.00		0.00	
Gross new borrowings/debt repayment (%)	9,777.83		189.17		838.11		19.75		0.00		0.00	
Gross new borrowings/capital expenses (%)	86.84		9.01		10.90		0.64		0.00		0.00	
Debt repayment/gross operating balance (%)	1.48		7.67		1.27		3.41		2.41		1.82	

SPECIAL FOOTNOTES (RATIOS):

[1] Excludes new borrowings

[2] Excludes debt repayment

[3] Financing deficit/surplus before debt movements

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